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Letter dated 12 October 2006 from the Secretary-General addressed to the President of the Security Council

Pursuant to Security Council resolution 1031 (1995), I have the honour to convey the attached letter, dated 6 October 2006, which I received from the High Representative for the Implementation of the Peace Agreement on Bosnia and Herzegovina, transmitting the thirtieth report on the implementation of the Peace Agreement, which covers the period from 1 February to 30 June 2006 (see annex).

I should be grateful if you would bring the present letter and its annex to the attention of the members of the Security Council.

(*Signed*) Kofi A. **Annan**

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Annex

Letter dated 6 October 2006 from the High Representative for the Implementation of the Peace Agreement on Bosnia and Herzegovina addressed to the Secretary-General

Pursuant to Security Council resolution 1031 (1995) of 15 December 1995, in which the Council requested the Secretary-General to submit reports from the High Representative to the Council in accordance with annex 10 to the General Framework Agreement for Peace in Bosnia and Herzegovina and the conclusions of the London Peace Implementation Conference of 8 and 9 December 1995, I herewith present to you the thirtieth report (see enclosure). I would kindly ask that the report be distributed to the members of the Security Council for their consideration.

The present report covers the period from 1 February 2006 to 30 June 2006. It is the first report that I have the honour of submitting through you to the Security Council. Should you or any Council member require any information beyond what is offered in the report or have any questions regarding its contents, I should be pleased to reply in writing.

(*Signed*) Christian **Schwarz-Schilling**

Enclosure

Thirtieth report of the High Representative for the Implementation of the Peace Agreement on Bosnia and Herzegovina to the Secretary-General of the United Nations

1 February-30 June 2006

Summary

1. I took over as High Representative for Bosnia and Herzegovina on 31 January 2006. In my first address to the citizens, I made it clear that, building on the work of my predecessor, my aim during my term of office would be to help Bosnia and Herzegovina intensify its transformation into a normal and peaceful country occupying its rightful place in Europe. I also stressed that I intended to oversee a shift in the part played by my own Office and that of the international community more generally: rather than providing hands-on leadership, the Office of the High Representative would offer advice and support to the domestic authorities as they assumed ownership of and full responsibility for the country's continuing progress towards both institutional sustainability and Euro-Atlantic integration. My priorities therefore are to advise the leaders of Bosnia and Herzegovina and to advocate on behalf of its citizens regarding those issues that they consider to be their principal priorities. I am determined neither to substitute Parliamentary Assembly of Bosnia and Herzegovina in making laws nor to intervene if politicians of Bosnia and Herzegovina should occasionally fail to discharge their responsibilities. On the other hand, if there should be any serious threat to the country's peace and stability — or any evident obstruction of cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY) — I have made it plain that I will not hesitate to use my powers.

2. The decision of the Peace Implementation Council of 23 June to authorize the Office of the High Representative to prepare for its closure and likely replacement in July 2007 by an office of the European Union Special Representative testified to the fact that Bosnia and Herzegovina is reclaiming its full sovereignty. Enhanced efforts on the part of the domestic authorities to take ownership of the necessary reforms and consistent stewardship on the part of the international community will, however, be required to make this happen. The proposed changes in the nature and degree of international engagement in Bosnia and Herzegovina also lend crucial importance to the impending general elections. The politicians elected on 1 October will bear responsibility not only for ensuring effective and efficient governance in Bosnia and Herzegovina, but also for maintaining the country's progress towards Euro-Atlantic integration.

3. The reporting period was comprised of two very distinct parts: a period of high expectations resulting from the unprecedented agreement among the leaders of six of the country's main political parties on 18 March to propose a package of constitutional amendments to the Presidency and Parliamentary Assembly, followed by a period of increasingly nationalistic vituperation after the narrow defeat of the reform package in Parliament on 26 April. This failure provided the context in which the parties defined their positions in an election campaign that has already generated more heat than light. As is usual in Bosnia and Herzegovina, the

nationalist parties have sought to rally their respective constituencies by emphasizing the threats supposedly posed to their national or entity interests by the others. The accentuation of dangers and divisions has not only made the passage of reform legislation almost impossible, it has also envenomed political discourse. Politicians in the Republika Srpska referred to the 21 May independence referendum in Montenegro and the Kosovo (Serbia) final status talks and claimed the right to a referendum on the future of the Republika Srpska. On the other hand, some Bosniak politicians suggested that the Republika Srpska be abolished.

4. Nonetheless, some progress was made in Stabilization and Association Agreement negotiations with the European Commission (EC) during the first half of 2006. Were it not for the preconditions set by EC in regard to police restructuring, public broadcasting reform and full cooperation with ICTY, it would be possible to predict a successful outcome to the Stabilization and Association Agreement talks by year's end and the opening of a bright new phase in the post-war development of Bosnia and Herzegovina. Unfortunately, failure to fulfil any one of these preconditions could yet scupper hopes of signing an agreement late this year or early next year. Police reform has experienced difficulties since May, when the Republika Srpska reduced its presence to observer status.

5. The pace of economic reform has likewise slowed during the reporting period and, owing to increased tax receipts and the election calendar, public spending has risen markedly. The entities and other lower-level governments have been borrowing against future revenues and making commitments that will be unaffordable in the longer term. The Council of Ministers failed to finalize and adopt the draft law on the National Fiscal Council, while the dispute over the allocation of indirect tax receipts among the entities and Brcko District continued to rumble. In March I reappointed Joly Dixon to serve for a further three months as Chairman of the Governing Board of the Indirect Taxation Authority.

6. The authorities of Bosnia and Herzegovina continued to engage actively in the process of public administration reform during the first half of 2006. The Public Administration Reform Coordinator's Office is finalizing a national strategy and action plan for the State, entities and Brcko District that will set out the steps necessary to secure quick and substantial progress in this field.

7. Despite the international community's regular reiteration of the need for full cooperation with ICTY, the suspension by EC in May of Stabilization and Association Agreement talks with Belgrade and recurrent media speculation that Serbia might finally be on the verge of arresting Ratko Mladić, no progress was made in apprehending either Mr. Mladić or Radovan Karadzić. Their continuing liberty once again disqualified Bosnia and Herzegovina from joining the NATO Partnership for Peace.

8. Based on the principles of equity and legality, as well as the judicious exercise of my mandate and the need to strike a balance between protecting national stability and individual rights, I have accelerated the rehabilitation of persons whom my predecessors had removed from public office. This process will be completed before the closure of the Office of the High Representative.

9. The unification of the Mostar city administration slowed considerably this year. Little if any progress has been made in finalizing the systematization of the administration, forming an urban planning institution, resolving the status of

Hercegovacka Television and various cultural institutions, or forming a single public utility company.

10. Direct discussions between the Council of Ministers and the government of Brcko District, facilitated by the United States Government and with the Office of the High Representative and the Brcko Final Award Office taking part as well, took place in February and June. Their aim is to put Brcko-State relations on a secure footing without recourse to the Arbitral Tribunal. In June, the Steering Board of the Peace Implementation Council urged the parties — and the Council of Ministers in particular — to engage intensively to resolve outstanding issues.

11. My Office continued to urge the State and entity authorities to comply fully with decisions of the Human Rights Chamber, especially in the long-standing cases of Colonel Avdo Palic and those Sarajevo Serbs who have been missing since the war.

12. The lack of progress on education reform during the reporting period is also regrettable. One of my top priorities for 2006 has been the establishment of an agency for standards and qualifications at the State level and the adoption of several other laws in that sector, starting with a law on higher education that will enable Bosnia and Herzegovina to live up to its commitments under the Bologna process and the Convention on the Recognition of Qualifications Concerning Higher Education in the European Region (Lisbon Convention), and so improve both the university educations and future prospects of graduates in Bosnia and Herzegovina.

13. My colleagues and I have endeavoured to fulfil both the workplan of the Office of the High Representative and the revised Mission Implementation Plan approved by the Peace Implementation Council in March. Our efforts have been hampered, however, by pre-election politicking. The domestic authorities have proved increasingly unwilling and/or unable to engage with reforms that provide no short-term political gains. The workplan and Mission Implementation Plan completion rate has thus suffered.

I. Introduction

14. This is my first report to the Secretary-General since assuming the office of High Representative for Bosnia and Herzegovina on 31 January 2006. As has been the norm, it assesses progress made towards attaining the goals outlined in previous reports and reviews developments during the reporting period.

II. Political update

15. The reporting period comprised two very distinct parts: a period of high expectation and optimism resulting from the unprecedented six-party agreement on constitutional reform that, after several months of intensive talks, was finally signed on 18 March, and a subsequent period of political antagonism increasingly underscored by nationalistic rhetoric following the narrow defeat of the constitutional reform package on 26 April. That coincided with and set the tone for the unofficial start of the general election campaign. The first phase was characterized by cooperative engagement on the part of a united Republika Srpska political establishment and disarray among the divided parties of the Federation

over the prospect of limited constitutional reforms. The latter phase has seen increasingly radical initiatives on the part of the new Premier of the Republika Srpska, Milorad Dodik, whose pronouncements on a possible secession referendum in the Republika Srpska, the revocation of previous transfers of competency to the State and the unacceptability of any police restructuring plan doing away with the Republika Srpska police marked a newly aggressive assertion of Republika Srpska interests. A month-long boycott of the Parliamentary Assembly of Bosnia and Herzegovina by Republika Srpska delegates in May and June made it impossible for Parliament to function. The issue was the failure of the Council of Ministers to establish a commission to investigate the wartime suffering and fates of Sarajevo residents of all nationalities, but the effect was to demonstrate Republika Srpska unity.

16. The Parliamentary Assembly of Bosnia and Herzegovina passed as at May eight major laws necessary for Bosnia and Herzegovina to meet the requirements of the European Union (EU), the NATO Partnership for Peace and ICTY. The Council of Ministers had previously adopted (in April) an EU integration strategy, its first long-term strategic document setting out the goals to be attained as Bosnia and Herzegovina proceeds towards full EU membership.

17. However, the harmonization of entity-level public broadcasting service (PBS) legislation with that of the State is still not complete. This is a still outstanding requirement of the EC 2003 feasibility study that has aroused formidable opposition among Croats in the Federation. Their invocation of a "vital national interest" case in the House of Peoples of the Federation of Bosnia and Herzegovina in the spring meant that the Federation PBS was referred to the entity's Constitutional Court, where it remained unresolved during the period under review.

18. After a delay of five months, the Ministry of Civil Affairs finally submitted a draft law on higher education to the Council of Ministers in April. More delays ensued, but the Council of Ministers eventually adopted the law by majority vote on 1 June and sent it to Parliament. The opposition of Serb ministers in the Council of Ministers ensured, however, that Members of Parliament from the Republika Srpska would also oppose the law. Efforts to draft amendments that would satisfy the Serbs while not risking the support of Croats and Bosniaks have continued.

19. The Parliamentary Assembly adopted amendments to the Election Law in March. Significantly, those amendments included the introduction of passive voter registration and the shortening of the period between calling and holding elections from 170 to 150 days. The advent of the passive voter registration system has already resulted in an increase of the number of voters on the electoral register by approximately 10 per cent. The 1 October elections were announced on 4 May. The Central Election Commission certified 48 political parties and 12 independent candidates for the elections.

20. The negative political climate that has prevailed since late April has had many manifestations. One was a mid-May vote of no confidence in Prime Minister Adnan Terzić, which he narrowly survived. As noted above, however, Members of Parliament from the Republika Srpska returned to the charge over the issue of a commission to determine the wartime fates of Sarajevo's missing civilians. Terzić's refusal to establish such a commission provoked Serb deputies to walk out of the House of Representatives on 24 May, a boycott that lasted until 20 June and achieved its object. The loss of nearly a month of parliamentary time not only held

up important reform legislation, but also exemplified the increasingly fraught state of inter-ethnic and inter-entity relations.

21. Prime Minister Dodik's speculative but inflammatory comments about a possible referendum on secession in Republika Srpska contributed to this deterioration. Although immediate reactions by Republika Srpska politicians to the 21 May Montenegrin vote for independence had been generally measured and mature, Mr. Dodik's decision a week later to raise the spectre of a similar referendum in the Republika Srpska, albeit in certain hypothetical circumstances, evoked wide enthusiasm there and outrage in the Federation. Calls by Bosniak politicians and commentators to abolish the Republika Srpska had the predictable effect of feeding ever more demands for self-determination among Serbs. Despite strong statements by the international community that there was no parallel between the Montenegrin or Kosovo cases and a sovereign Bosnia and Herzegovina — and explicit condemnation of Mr. Dodik's remarks — he continued to revert to the idea of a referendum throughout June.

22. Immediately upon taking office at the end of February, Mr. Dodik had launched an attack on the legitimacy of the Police Restructuring Directorate Steering Board that he has sustained over the reporting period. He asserted his support for the three EU principles on State-level budgetary and legislative primacy, political non-interference and functional policing regions, but challenged both the composition and the proposals of the Steering Board. He has not, however, put forward any scheme that would satisfy the principles while supplanting the two-level policing model being developed by the Police Directorate. The latter body, meanwhile, had laboured over several months to maintain decision-making by consensus. That proved impossible by May, and the Republika Srpska was outvoted when the Steering Board finally opted for a model based on State and local police authorities, that is, without a place for entity police forces. The Republika Srpska responded by unilaterally downgrading its participation in the Steering Board to that of a mere observer, regardless of previous assurances to EU heads of mission that it would do no such thing. Republika Srpska disengagement prevailed through June.

Constitutional reform negotiations

23. Intensive negotiations among the leaders of the country's eight largest political parties, coordinated over four months by the United States Embassy in Sarajevo, culminated on 18 March in an agreement by six of them on a set of draft constitutional amendments. The Constitutional and Legal Affairs Commission of the House of Representatives of Bosnia and Herzegovina affirmed the constitutional grounds for those amendments on 31 March and a public consultation on them took place in Parliament on 12 April.

24. The amendments envisaged an indirectly elected President and two Vice-Presidents who would rotate every 16 months in place of the popularly elected collective Presidency whose chairmanship rotates every eight months; a stronger and larger Council of Ministers with a real premier at its head; an expanded House of Representatives and House of Peoples, but with restricted competencies for the latter; and a more clear-cut division of responsibilities between the State and the entities.

25. Regardless of any such weaknesses, the Office of the High Representative — like other international agencies — lent its support to that historic effort to improve

upon and effectively domesticate the Dayton Constitution. As the parliamentary procedure continued, however, it became clear that opposition to the amendments had become a defining issue for Croat deputies who had broken with the Croatian Democratic Union of Bosnia and Herzegovina (HDZ) and would soon form the "HDZ 1990". They contended that the reforms did nothing to improve Croats' standing, even going as far as to suggest that signing the reforms would lead to the complete marginalization of the Croat people within Bosnia and Herzegovina. The Party for Bosnia and Herzegovina (SBiH) also opposed the package, thereby providing a re-entry ticket into active politics for party founder Haris Silajdžić, who argued that the amendments were both superficial and legitimized the Republika Srpska.

26. Although the package scraped through the committee stage, it failed on 26 April (by two votes) to win the required two-thirds majority in the lower House after a two-day session. That result was due to the opposition of SBiH and the nascent HDZ 1990, and one independent Member of Parliament and a single defector from the Party of Democratic Action (SDA).

27. The discussion about constitutional reform marked a party-political realignment that split both HDZ and the Bosniak parties. The failure to enact them inaugurated what has turned out to be a highly polarized and vituperative election campaign.

28. The April package will probably provide the basis for a renewed effort to agree and enact constitutional reforms after the elections. If the six parties behind the deal win a two-thirds majority in the House of Representatives of Bosnia and Herzegovina, it is possible that the package could be rapidly passed. I plan to take a proactive role in the continuation of this process.

Republika Srpska

29. A new Republika Srpska government, led by Milorad Dodik's Alliance of Independent Social Democrats (SNSD), took office in early March. By the end of June, it had pushed a raft of legislation (54 new laws) through the National Assembly of the Republika Srpska, related mainly to combating organized crime, revising previous privatization deals and reorganizing the public administration. The National Assembly has functioned more efficiently and the government has been more open to non-governmental organizations, citizens' associations, the media and the general public than its predecessor.

30. Several laws proposed by the government aroused controversy, however, and were blocked by invocations of "vital national interest" by the Bosniak or Croat caucuses in the Council of Peoples of the National Assembly of the Republika Srpska. Mr. Dodik, meanwhile, has sought to leave no room on his nationalist right and has missed no chance to demonstrate his arch-Serb credentials by challenging the international community, above all on police reform and fiscal issues.

31. The first significant controversy concerned the replacement of assistant ministers who occupy civil service positions. Mr. Dodik, however, sought to make new appointments under the Law on Ministerial Appointments, which the Office of the High Representative opposed on the grounds that this relates to political appointees, not to civil servants. The Prime Minister, however, has thus far had his way. He was forced to backtrack, however, when he appointed a special

prosecutorial team to fight organized crime without consulting or acknowledging the authority of the High Judicial and Prosecutorial Council in such matters. Those appointed promptly resigned when the Council decried the illegality of their appointments and negotiations commenced to bring the relevant Republika Srpska law into line with that of the State.

32. As noted above, Mr. Dodik launched an attack on the legitimacy of the Police Restructuring Directorate Steering Board upon coming to office.

33. Mr. Dodik's inflammatory remarks on the possibility of a secession referendum in the Republika Srpska were a cause for serious concern. They were in marked contrast to the generally measured and mature reactions of other mainstream Republika Srpska leaders following the Montenegrin independence referendum. I felt it was important to lay down a marker and to issue a statement warning that any concrete plan to organize a referendum on Republika Srpska self-determination or secession would clearly call into question the stability of the State, and that I would have no option in such circumstances but to use my executive powers.

34. Far from retracting his remarks, in a subsequent interview, Dodik heralded the advent of an "era of referendums", insisted that a referendum was a theoretical possibility and castigated the international community for its supposedly inveterate hostility towards the Republika Srpska. However, he was careful to say that any Republika Srpska referendum would be under the auspices of the European Union. My Office restated its position, following which Mr. Dodik appeared to back down to some extent. On the eve of a reputed "State visit" by the Serbian Prime Minister to Banja Luka on 9 June, however, I felt obliged to caution him in writing that any discussion of a future referendum on that occasion would be impermissible. Fortunately, there was none.

Federation of Bosnia and Herzegovina

35. The harmonization of the entity-level Public Broadcasting Law with that of the State — a long-deferred feasibility study requirement — has not yet taken place, owing to the submission of a vital national interest case to the Constitutional Court of the Federation by the Croat Caucus of the House of Peoples. The Court did not rule on the merits of that case during the period under review.

36. A worrying attempt to reassert political control over the electricity regulator following its approval of price rises was headed off by intervention of the Office of the High Representative. The proposed amendment of the relevant law would have contravened an EU directive. That instinctive response by politicians to an unpopular decision by an independent regulatory agency was a telling example of both why such regulators are necessary and how fragile they remain in Bosnia and Herzegovina.

III. European Partnership requirements

37. In March 2006, the Council of Ministers adopted an action plan to address the European Partnership priorities. In April, it adopted an EU Integration Strategy: its first long-term strategic document setting out the steps and benchmarks it foresees in order to fulfil the EU membership criteria.

38. On the basis of the findings of the European Commission's 2005 Progress Report on Bosnia and Herzegovina's preparations for further integration with the European Union, EU adopted in January 2006 a revised European Partnership with Bosnia and Herzegovina.

39. The Council of the European Union has judged that the conclusion of the Stabilization and Association Agreement depends in particular on progress achieved by Bosnia and Herzegovina in developing its legislative framework and administrative capacity, the implementation of police reform in compliance with the Agreement on Police Restructuring of October 2005, the adoption and implementation of all necessary Public Broadcasting legislation and full cooperation with ICTY. While the negotiations on the Agreement proceeded well, there was less progress in addressing the key European Partnership priorities, particularly in the areas of Public Broadcasting Service reform and police reform.

Police reform

40. As a result of the October 2005 Agreement on Restructuring of Police Structures adopted by the Republika Srpska National Assembly, the Federation Parliament, the Bosnia and Herzegovina Parliamentary Assembly and the Council of Ministers, the Directorate for Police Restructuring Implementation was established and commenced work. The primary task of the Directorate is to propose a phased implementation plan for police reform, including proposals of police regions, which conform to the three European Commission principles on police reform, that is,

- All legislative and budgetary competencies for all police matters must be vested at the State level
- There must be no political interference in operational policing
- Where operational command is exercised at the local level, such policing areas must be determined by technical policing criteria.

41. The Directorate's Steering Board met 13 times from its inaugural session in late January to the end of June 2006. In February, the Steering Board resolved most administrative and internal organization issues, including the completion of the Directorate's Executive Board membership, adoption of a Directorate Rule Book, Strategic Guidelines for the Work of the Executive and the Directorate's Plan of Activities, which Brussels had requested in order to monitor progress.

42. The Directorate soon fell behind schedule, however, most importantly by missing the deadline for deciding on a future model of policing and its internal organization. Political interference from and denials of the Directorate's legitimacy by the government of the Republika Srpska were mostly to blame. The root of the problem lies in the reluctance of the government of the Republika Srpska to accept the EC principles and refusal to contemplate the loss of its own entity police force. Furthermore, the Prime Minister Milorad Dodik in particular continued to emphasize that the Republika Srpska would never back down from its stance in the future.

43. Despite continuing political obstruction from the Republika Srpska, in early May the Directorate Steering Board broke the deadlock and abandoned its effort to make all decisions by consensus when it adopted an Opinion on the basic elements of the future police structure, which should be based on two levels — State and

local — in place of the current three-level model. The Steering Board adopted this Opinion by majority vote.

44. Given both past delays and the enormous technical task still facing the Directorate, it seemed highly unlikely by the end of June that the plan would be complete by the 30 September deadline.

IV. Entrenching the rule of law

45. In recognition of the fact that Bosnia and Herzegovina now possesses both the legal framework and Statewide institutions required to maintain the rule of law, the Rule of Law Department of the Office of the High Representative closed at the end of 2005. Mindful, however, that there is still work to be done in cooperation with domestic institutions and authorities to ensure that past reforms are fully implemented, the Office established an Implementation Unit.

46. In addition to the active engagement of the Office of the High Representative/EU Special Representative in the process of police reform, they have remained engaged in issues related to organized crime, citizenship and capacity-building in the field of criminal intelligence.

Organized crime

47. Because of the dire effects of organized crime and corruption on both the economy and citizens' trust in the political system, the focus of the monitoring and advisory work of the Office of the High Representative is now on those debilitating phenomena. The Office of the High Representative/EU Special Representative monitored and encouraged the work of the working group, chaired by the Ministry of Justice, aimed at redrafting the National Plan of Action Against Organized Crime and Corruption. The plan sets out a coordinated strategy, as well as precise and measurable goals. Its implementation will also be closely monitored. The Implementation Unit approaches rule of law issues from the law enforcement perspective, working to build up the capacity and independence of the Ministry of Security, the State Border Service and the State Investigation and Protection Agency.

Criminal Intelligence Unit

48. Before closing down at the end of March, the staff of the Criminal Intelligence Unit worked to train their domestic counterparts in the State Investigation and Protection Agency on the effective use of specialized computer hardware and software purchased for them.

V. Cooperation with the International Criminal Tribunal for the Former Yugoslavia

49. A number of complex war crimes trials are under way in the State Court, including that of a group accused of genocide following the conquest of Srebrenica by Serb forces. The Court has also initiated the trials of cases transferred from ICTY (Radovan Stanković and Gojko Janković) and confirmed the indictment of another

(Zeljko Mejakić), also transferred from The Hague. The case of a fourth accused (Pasko Ljubicić) was due to be transferred shortly.

50. Although there was little or no progress in capturing remaining ICTY fugitives, Bosnia and Herzegovina played a significant role in the transfer of Dragan Zelenovic to The Hague. He was extradited by the Russian Federation to Bosnia and Herzegovina, but was quickly sent to ICTY, where he awaits trial. This testified to the efficiency of the court of Bosnia and Herzegovina that processed him without incident or delay.

51. The Federation and Republika Srpska police arrested a number of domestic war crimes indictees during the period. While such compliance with court orders of Bosnia and Herzegovina across entity boundaries wins no international media attention, it does show an enhanced commitment by law enforcement agencies to the pursuit of war crimes indictees.

VI. Reforming the economy

52. Recent economic policy advances were confirmed during the reporting period by the decision of Moody's Investor Service to upgrade the key debt rating of Bosnia and Herzegovina from B3 to B2. Moody's particularly highlighted the resolution of the longstanding issue of compensation for frozen foreign currency deposits, plans to deal with other internal debts and restitution, as well as the smooth introduction of the value-added tax (VAT) in January.

53. The overall macroeconomic situation remains positive. Economic growth has been estimated at 5 to 5.5 per cent of real gross domestic product, which is among the highest in the region. Exports accelerated by 33 per cent in the first quarter of 2006 relative to the same period last year, and that increase presumably reflects stronger incentives for accurate reporting by exporters as a result of VAT. Growth of imports also accelerated sharply in December 2005, mainly driven by pre-emptive buying ahead of the application of VAT. Inflation rose slightly in 2005, reflecting an increase in excise tax and higher oil prices.

54. This momentum needs to be maintained. That will require enhanced fiscal coordination and a reduction in fiscal risks. One of the key economic reforms the Office of the High Representative expects to see enacted before the end of 2006 is a law on the National Fiscal Council that will ensure proper functioning of the existing but informal Council. Other reforms to be enacted are laws on obligations and salaries of State civil servants and other employees. They will, respectively, rationalize the management of public finances, introduce legal certainty across the entire spectrum of commercial contracts and put the remuneration of civil servants and parliamentarians on a realistic and financially sustainable footing.

55. However, the overall pace of economic reform has slowed significantly. There are three principal reasons for this. First, the incipient change of government in the Republika Srpska resulted in a two-month interruption of efforts to take the economic reform agenda forward before Mr. Dodik took office. Secondly, the early and unofficial start of the election campaign has had significant and generally negative implications for making progress this year on both economic and political reforms. Lastly, the Council of Ministers and other authorities of Bosnia and Herzegovina have continued to show a marked inability to take tough decisions and

have sought to pass responsibility for them to the High Representative. For example, as a result of gridlock among stakeholders, the High Representative had to extend the mandate of the international Chairman of the Governing Board of the Indirect Tax Administration in March and to appoint a new Chairman at the end of June.

56. The major economic challenge at present is the pre-election loosening of fiscal discipline, which is weakening public finances. The entities and other lower-level authorities have already started to spend the higher-than-expected VAT revenues, in addition to borrowing against future revenues, and are apparently committing themselves to vote-winning wage rises for public-sector workers. Police salaries in the Republika Srpska have been increased by 17 per cent, while a random check of six Federation municipalities shows average wage increases of around 10 per cent. Furthermore, there are currently several laws in legislative procedure that would increase benefits to State and Federation officials, including parliamentarians themselves. Their passage will only encourage other groups to press for similarly generous deals.

57. Prime Minister Terzić announced at the March meeting of the Peace Implementation Council that the Council of Ministers would use the VAT surplus to facilitate labour market reform, including a reduction of labour taxes and social contributions. There has, however, been no follow-up thus far.

VAT introduction

58. All signs point to the successful introduction of VAT. After the first five months, the Indirect Tax Administration had collected 150 million convertible marka more than expected.

59. However, arguments over revenue allocation among the State, entities and Brcko District have consumed an alarming amount of political time and energy. Agreement on permanent allocation coefficients for 2006 was not achieved in the reporting period. Demands by the Republika Srpska for a larger share of last year's receipts led to an agreement to conduct an external audit, but the parties were unable to concur on its terms of reference. The dispute over the allocation of revenues also delayed progress on the agreement of the National Fiscal Council law while, at the same time, underlining the need for such a law.

60. Several sets of amendments to the VAT law have been tabled that would exempt certain products or introduce a zero rate. The likelihood that any such reductions would reflect electoral considerations rather than fiscal wisdom caused the Office of the High Representative to oppose such proposals at this stage. My Office has made it clear, however, that it would not seek to prevent Parliament from amending the law.

Single economic space

61. During the reporting period, the Republika Srpska was reluctant to transfer the competency for banking supervision and obligations to the State. Although the government of the Republika Srpska twice adopted a transfer agreement on the Law on Obligations, the National Assembly of the Republika Srpska has not endorsed it.

62. Centralizing banking supervision under the Central Bank (or a State banking agency) is an EU Partnership priority. Political stakeholders have accepted this in principle, but real progress is dependent upon the adoption of a transfer agreement.

Despite lobbying by the Office of the High Representative and the clear economic incentives, the government of the Republika Srpska has thus far proved unwilling to adopt the transfer agreement. The Federation government adopted a transfer agreement in May.

63. The Law on Pharmaceuticals and Medical Devices of Bosnia and Herzegovina was adopted by the Council of Ministers and has entered Parliament. Apart from establishing uniform conditions for the manufacture, testing and sale of pharmaceuticals and medical devices, the law also introduces a countrywide supervision regime by establishing a single regulator, the State Pharmaceutical Agency. It thus would represent a significant step towards creating a single pharmaceuticals market that would not only facilitate business development and investment, but also safeguard public health. The law encountered strong opposition from the predominant domestic producer and its political supporters.

64. Infrastructure reform during the period focused on the completion of a legal framework for the railways, which aims to transform the Public Railways Corporation of Bosnia and Herzegovina into a single infrastructure management company. Despite the fact that 170 million euros in funding is on offer, the objections of the Republika Srpska to separating operators from infrastructure providers has delayed matters.

VII. Strengthening the State Government

65. The Joint Action Plan for Staffing and Premises, which Prime Minister Terzić presented to the Peace Implementation Council in September 2004, continued to provide the agenda during the first half of 2006 — and with the Office of the High Representative still acting in support. The focus was again on the State Property Commission, which has been tasked with developing laws that identify each government level's ownership rights over the various categories of public property, and with elaborating criteria by which State-level institutions can acquire/expropriate property necessary to the exercise of State-level functions, not least those stemming from European integration. After extensive discussions, the Legal Subcommittee of the Commission, comprised of State, entity and Brcko officials, prepared initial draft laws. The Office of the High Representative has observed, advised and assisted the Commission's work in particular in forging political and technical agreements on key aspects of the draft by the several layers of government.

VIII. Public administration reform

66. During the reporting period, the National Public Administration Reform Coordinator finalized the first draft of the national public administration reform strategy, as well as an accompanying action plan for adoption by the State, entity and Brcko District authorities. Six intergovernmental working groups conceived the strategy between March and May 2006. It encompasses the six horizontal public administration reform areas: human resources; legislative drafting; administrative procedures; information technology; institutional communications; and public finance. On 22 June, the three Prime Ministers and the Brcko mayor publicly endorsed the strategy. The Office of the High Representative provided both political

support and technical assistance throughout. Also in June, the Civil Service Agency completed the recruitment procedure for six staff members of the National Public Administration Reform Coordinator's Office, thereby providing it with long-needed manpower.

67. The adoption and start of the implementation of a comprehensive public administration reform action plan forms part of the key short-term priorities of the European Partnership, the conditions for signing the Stabilization and Association Agreement.

IX. Defence reform

68. As I outlined in my last report, Bosnia and Herzegovina made great strides towards reforming its defence sector in 2005. As a result, the country now has just one Minister of Defence, one Chief of Staff, one chain of command and one army. In line with the Law on Defence, the Presidency signed in early July a decision determining the size, structure and locations of the Armed Forces of Bosnia and Herzegovina as proposed by the Minister of Defence.

69. The technically challenging and complex process by which the State is assuming all defence-related tasks has continued. The implementation of the transition phase is being led, planned and managed by the Minister of Defence, assisted by the North Atlantic Treaty Organization (NATO). A Transition Implementation Expert Team has been set up to assist the Minister. At the highest managerial level, the Minister chairs the Defence Reform Coordination Group, in which his own deputies and senior military commanders participate. The Group assists the Minister in coordinating the activity of the defence institutions of Bosnia and Herzegovina with the international community. Although NATO takes the lead among the latter, the Office of the High Representative remains closely involved in the process.

70. The remaining challenges are now to ensure that the agreed reform is implemented in the manner intended and within the relatively ambitious deadlines set in the Law on Defence. The formation of the new Armed Forces of Bosnia and Herzegovina should be complete by the end of 2007.

71. I will continue to monitor closely any attempts to prolong and/or to establish ethnic parallelism within the defence system. Trust takes time to build, and some countervailing influences still exist both inside and outside the defence establishment.

X. Intelligence reform

72. Intelligence reform continued during the first half of 2006. The responsibility of the Office of the High Representative for overseeing the digitizing, processing and storing of war-crimes archives in the Intelligence and Security Agency remained on track. The Norwegian Government continued to fund the project. Discussions also continued on how best to provide secure access by the State Investigation and Protection Agency to the database maintained by the Intelligence and Security Agency.

73. A few technical amendments to the Law on the Intelligence and Security Agency were adopted by the Council of Ministers, reviewed by the Parliamentary Assembly's Constitutional and Legal Affairs Committee and finally passed by both Houses of Parliament. Having received positive assessments from the Presidency and Parliamentary Assembly, the Council of Ministers unanimously reappointed the senior leaders of the Intelligence and Security Agency to full four-year terms.

74. Given the sensitive nature of intelligence reform, I will continue to monitor and advise the Intelligence and Security Agency, the Intelligence-Security Committee of the Parliamentary Assembly and the Intelligence-Security Advisory Service in the Office of the Prime Minister. In fact, I consider this to be of critical importance over what is likely to be an eventful and possibly bumpy 12 months leading up to the closure of the Office of the High Representative.

XI. European Union military mission

75. The European Union military mission (European Union Force in Bosnia and Herzegovina (EUFOR)) has continued to conduct operations to ensure compliance with the General Framework Agreement for Peace and to maintain a safe and secure environment. EUFOR troops conducted a number of operations, including presence patrolling, observation activities, weapons' collections and specific operations targeted at the support networks of war crimes indictees and associated criminal elements. EUFOR maintains around 6,000 troops from 22 States members of the European Union and 12 other countries. The Force remains deployed in three regional multinational task forces based in Banja Luka, Mostar and Tuzla, in addition to 44 liaison and observation teams (LOT houses) throughout the country.

76. EUFOR has continued its active engagement in the Crime Strategy Group bodies, chaired by the EU Special Representative, which are tasked with overseeing the coordination and coherence of the EU Security and Defence Policy in support of the domestic authorities' fight against organized crime. New EUFOR and European Union Police Mission operational guidelines mean that EUFOR now plays a less active role in conducting operations targeting organized crime, but is instead backing local law enforcement agencies, on request, when endorsed by the Police Mission.

77. In recognition of the successful restructuring of the Armed Forces of Bosnia and Herzegovina, EUFOR is aiming to transfer its inspection functions and activities to the Ministry of Defence of Bosnia and Herzegovina and other relevant ministries. As Bosnia and Herzegovina moves towards normality and EU integration, EUFOR has likewise shifted from deterrence towards providing reassurance. The EUFOR presence is, however, still deemed essential to the maintenance of overall stability. A potential change in force posture over the coming year would need to take into account not only developments in Bosnia and Herzegovina, but also in the region as a whole. Any decision regarding EUFOR will be taken in close consultation with me as High Representative and European Union Special Representative.

XII. Return of refugees and displaced persons

78. At the end of 2003, when property repossession was nearly complete, the Office of the High Representative handed over responsibility for the refugee-returns process under annex 7 to the General Framework Agreement for Peace in Bosnia and Herzegovina to the domestic authorities. (Apart from Novi Travnik municipality, which has had particular difficulties, repossession is now complete.)

79. Permanent returns — and the sustainability of those returns — are, however, another matter. The situation here varies enormously from region to region and municipality to municipality. Although there are places in both entities, as well as in Brcko District, where a given area's pre-war, multinational demography has been partially restored, the non-Serb population of the Republika Srpska remains well below 10 per cent, while more than 20 per cent of displaced Serbs have returned to the Federation.

80. While the number of potential returnees grows ever smaller, a large number of people would still consider return if housing-reconstruction funds were available, improvements to the infrastructure and schooling were made and, above all, jobs were available. As it is, "ethnic cleansing" has been reversed only in part, and many returns remain provisional or seasonal.

81. As a consequence of this year's introduction of passive voter registration, the State and entity refugee and human rights ministries were endeavouring during the period under review to reregister displaced persons, removing those from the lists who no longer had any intention of returning to their pre-war homes. The previous number of 180,000 displaced persons in Bosnia and Herzegovina is expected to fall to about 100,000 when the process is completed during the summer.

XIII. Mostar

82. Although the unification of Mostar has progressed during the two years that have passed since the then High Representative promulgated a new city statute, the city's two main political parties have lately been deadlocked on a number of issues. Hardliners in the Party of Democratic Action (SDA) and the Croatian Democratic Union (HDZ) appear to have regarded the late 2005 closure of the Mostar Implementation Unit of the Office of the High Representative as an opportunity to obstruct implementation of outstanding items on the unification agenda. Three months after I met with Mostar officials in February, the city had still not adopted a 2006 budget. Nor had officials made any progress in systematizing the city administration, forming an urban planning institution, resolving the status of Hercegovaka Television (HTV) and other cultural institutions, or forming a single public utility company.

83. At the end of May, I summoned Mostar's political party leaders to an emergency meeting, during which I warned them that if they did not break current deadlocks, I would have to submit a highly negative report to the Steering Board of the Peace Implementation Council. I set a deadline of 20 June for adopting a budget and making substantial progress on systemization and forming a single public works company. Within four days the City Council finally adopted a budget for 2006 and set its own deadlines for resolving the status of HTV and cultural institutions. This

demonstrated some ability to cooperate over crucial issues, but follow-through has latterly been lacking and the ascendancy of the hardliners remains worrying.

84. Violence was also seen on Mostar's streets on 13 June, following the World Cup football match between Croatia and Brazil, when hundreds of youths clashed along the former front line in the city centre, resulting in dozens of injuries and considerable damage to property. In any other city, such an occurrence might be attributed to simple football hooliganism, but in this case, inter-ethnic animosity was a major factor. It was no coincidence that this near-riot followed several more weeks of political deadlock and incitement by some religious and political leaders. To its credit, the City Council met in emergency session the next day to condemn the violence unanimously and vigorously.

85. The completion of Mostar's unification according to the city's statute remains a priority during the final year of the Office of the High Representative.

XIV. Brcko District

86. The working group initiated by the United States Government in November 2005 and designed to find long-term political solutions to problems bedevilling Brcko District's relationship with the State met twice in the reporting period, in February and June. The first meeting paved the way for the long-mooted establishment of the Brcko District Office in the Council of Ministers. The Office opened in March. The second meeting agreed on an action plan centring on the drafting and adoption of a State law incorporating the main elements of the Final Award in domestic legislation, thereby paving the way for the eventual termination of the supervisory regime. The action plan also envisages the early amendment of the Law on the Council of Ministers in order to provide the Brcko District Office with an enhanced status. The working group is scheduled to meet again in September to draft the required State law. Passage of both a State law and amendments to the Law on the Council of Ministers should make further proceedings by the Arbitral Tribunal unnecessary.

XV. Bosnia and Herzegovina and the region

87. During the reporting period, regional issues had a significant impact on Bosnia and Herzegovina. The start of Kosovo status talks in February and the independence referendum in Montenegro encouraged politicians and commentators in Serbia and the Republika Srpska to draw false parallels between the future of Kosovo and/or Montenegro and the Republika Srpska. As noted above, Montenegrins' vote to dissolve the State Union with Serbia led Prime Minister Dodik of the Republika Srpska to speculate about the circumstances in which voters of the Republika Srpska might one day opt for national self-determination. The readiness of Federation-based politicians, above all Haris Silajdzic, the candidate of the Party for Bosnia and Herzegovina for the Presidency, to respond with demands for the abolition of the Republika Srpska created a vicious circle of rhetorical radicalism.

88. A purported "State visit" by Serbian Prime Minister Vojislav Kostunica to Banja Luka on 9 June passed off without any talk in public about a referendum in the Republika Srpska, but with much public discussion of the need to update the agreement on parallel relations between Belgrade and Banja Luka. That, likewise,

served to incite Bosniak protests over any deal that aimed to bypass State-level institutions. Given both the context in which the need to revise the existing agreement was floated and Mr. Kostunica's oft-repeated view that the Republika Srpska constitutes an integral part of the Serbian nation, each side acquired yet more arguments to fling at the other.

89. The relationship of Bosnia and Herzegovina with Serbia has also been complicated by the genocide case lodged against the former Federal Republic of Yugoslavia by the then Republic of Bosnia and Herzegovina at the International Court of Justice in 1993, hearings on which finally commenced in late February. Bosnian Serb politicians, including the Foreign Minister of Bosnia and Herzegovina, and the Serb member of the Presidency have argued that the case is both illegitimate and poses yet another threat to the existence of the Republika Srpska. From Belgrade's perspective, the main concern, apart from being branded a genocidal State, is the risk of being saddled with the payment of enormous reparations.

90. The suspension by the European Community in May of its talks on a Stabilization and Association Agreement with Belgrade because of the Serbian Government's failure to arrest ICTY indictee Ratko Mladić affects Bosnia and Herzegovina, as all but two of The Hague's indictees still at large are indicted for war crimes committed in Bosnia and Herzegovina (Goran Hadzić and Vlastimir Djordjević).

91. It should be noted that Bosnia and Herzegovina continues to have minor but unresolved border issues with both of its neighbours. More troublesome difficulties stem from the fact that many citizens of Bosnia and Herzegovina also have Croatian or Serbian nationality, and the constitutional bans in those countries on extraditing their citizens mean that the regional battle against organized crime and the pursuit of putative war criminals not indicted by ICTY are impeded. Fortunately, Montenegro and Bosnia and Herzegovina have no territorial disputes or other unresolved issues.

XVI. European Union Police Mission

Transition phase

92. The first five months of 2006 saw the European Union Police Mission in transition, with the development of a refocused mandate, a reduction of Mission strength and the establishment of new structures. A number of key transitional tasks thus needed to be carried out in the period:

- Establishment of the Organized Crime Policy and Coordination Department responsible for the overall synchronization of the Mission's activities in support of the fight against organized crime
- Establishment of the Criminal Justice Interface Unit, tasked to address deficiencies in cooperation between police and prosecutors. The Unit focuses on enhancing both general and case-specific cooperation in order to facilitate effective investigations and prosecutions and to contribute to strengthening the integrity of the criminal justice system of Bosnia and Herzegovina

- Establishment of inspection teams based in Sarajevo and Banja Luka that are to be the main Mission instruments for ensuring local accountability and dealing with such issues as police integrity, corruption and political interference

- European Union Police Mission-EUFOR Common Operational Guidelines. During this phase, the negotiation, preparation and agreement of the guidelines took place. The guidelines formalize the working relationships of the Mission, EUFOR and the domestic police in the fight against organized crime. They ensure that the Mission assumes the leading role in the policing aspects of European Security and Defence Policy efforts and came into effect on 1 June.

Staffing

93. On 30 June, the European Union Police Mission numbered 419 staff: 175 seconded police officers; 29 international civilians; and 215 national staff. The Mission has started to take proper account of in all its activities of Security Council resolution 1325 (2000) on women, peace and security. The gender ratio remains unsatisfactory among seconded Mission personnel, with 12 female international police officers and 7 international female civilians. Nonetheless, the 127 female members of national staff place the Mission well above the gender-balance target in this area.

Mission objectives

94. The Mission has four principal objectives:

- Support to the police restructuring process. As foreseen by its operational plan, the Mission has worked to promote the restructuring process, with the Commissioner serving as the only international member of the Steering Board of the Police Restructuring Directorate under the guidance of the EU Special Representative. Despite the efforts of the government of the Republika Srpska to discredit the Steering Board and its representative's subsequent adoption of "observer" status, the Steering Board has maintained its technical work, albeit at a slower pace than envisaged

- Support in the fight against organized crime. The Common Operational Guidelines represent a significant step forward in assisting the development of the local police. The Mission has also continued to help build the capacity of the State Investigation and Protection Agency and the State Border Service, which are key agencies in combating organized crime. Through its case management system, the Mission actively monitors and assists the domestic police in investigating individual crimes

- Enhance accountability. Led by two dedicated inspection teams and supported by other Mission resources, as required, the European Union Police Mission carried out 17 inspections up to the end of June, as well as smaller, local-level inspections. The Mission has aimed to encourage the local police to identify irregularities and to act upon them. It has then overseen the work of prosecutors as cases are passed to them, ensuring that they are dealt with appropriately and lead to a conclusive result. For that reason, the majority of cases remain ongoing

- Horizontal tasks. The Mission remains active in other areas, including the completion of projects initiated during its previous mandate, developing the capacity of law enforcement agencies and working with the local police in planning public awareness campaigns.

XVII. Human rights

Implementation of Human Rights Chamber decisions: the Palić case

95. The Commission established by the government of the Republika Srpska early in the year to carry out immediately a full investigation capable of exploring all the facts regarding Colonel Avdo Palić's fate following the July 1995 fall of the United Nations "safe area" of Žepa was due to submit its final report by 21 April. The Commission then reported that it had acquired information regarding the whereabouts of Colonel Palić's remains, but extended its reporting deadline by 40 days because of heavy snow in the area. Despite this unilateral extension, the Commission failed to locate any remains by the end of June. Prime Minister Dodik had meanwhile promised to visit the mountainous region in question, but failed to do so. The Office of the High Representative has denounced this continuing failure by the Republika Srpska to fulfil the terms of the decision of the Human Rights Chamber and initiated private talks with both the Republika Srpska and Serbian authorities. The latter are relevant because material witnesses to Palić's execution are assumed to be in Serbia.

Missing persons of Sarajevo

96. On 8 March, Federation Prime Minister Ahmet Hadzipašić met with representatives and family members of Serbs missing from eastern Sarajevo. He promised to establish a commission to determine their fates by 31 March. Despite intermittent protests by Serb non-governmental organizations, no such commission was named, although Mr. Hadzipašić, like Mr. Dodik in the Palić case, continued to offer private assurances that the 2001 ruling by the Human Rights Chamber would be obeyed. The June decision by the Council of Ministers to form a commission to investigate the wartime suffering of civilians of all nationalities in the Sarajevo region had the effect of taking the pressure off the Federation government, but the issue remains outstanding.

XVIII. Removals policy of the Office of the High Representative

97. Following close consultation with the Steering Board of the Peace Implementation Council, on 21 March, I announced two new steps to accelerate the lifting of bans on officials removed by my predecessors for obstructing implementation of the Peace Agreement. Those two steps run in parallel. The first is to review the cases of individuals who apply to the Office of the High Representative for their bans to be lifted. After investigating their post-removal behaviour, I decide whether to lift the sanction against them. If the ban is removed, such individuals regain the right to stand for and hold any public position, whether elected or appointed. From 21 March to 30 June, I cancelled the removal orders on 11 former officials. That brings the total number of ex-officials whose bans have been lifted to 41.

98. As to the second step, I instituted a horizontal approach, whereby previously removed officials will regain their eligibility for public office and employment in phases, leading gradually to their complete rehabilitation through a series of decisions. On 4 April, I issued a decision allowing removed officials to apply for and hold positions in publicly owned companies and other public institutions, such as hospitals. That will be followed by further steps.

99. Those measures apply to all those removed by previous High Representatives, with the exception of persons banned from public life because of their support for The Hague indictees or obstruction of full cooperation with ICTY, both of which represent clear obligations under the General Framework Agreement for Peace.

XIX. Non-certification of police officers

100. In February, I wrote to the President of the Security Council and the Under-Secretary General for Peacekeeping Operations expressing my support for the United Nations effort to explore, together with the Government of Bosnia and Herzegovina, possible solutions to the longstanding impasse over police officers of Bosnia and Herzegovina denied certification by the former United Nations International Police Task Force but for whom no appeals process has been available. While in New York to address the Security Council in April, Prime Minister Terzić and I called upon the United Nations to set up a review process based on the October 2005 Opinion of the Venice Commission. In subsequent meetings with the United Nations Secretariat, I agreed to send a team to New York to explore potential solutions with the Security Council Coordination and Drafting Group and with the Department of Peacekeeping Operations.

101. In June, an expert team from the Office of the High Representative/European Union Special Representative met with the EU missions to the United Nations under the auspices of the Austrian EU Presidency and with the Coordination and Drafting Group and the Department of Peacekeeping Operations. The expert team agreed during those meetings to provide the additional information requested by the Coordination and Drafting Group and to continue its discussions with the Department. The expert team returned to New York in July. I am looking forward to a decision from the Department and the Coordination and Drafting Group.

XX. Media development

102. The final handover of responsibility for public broadcasting reform by the Office of the High Representative to domestic institutions — the Communications Regulatory Agency and the broadcasters' governing bodies to be appointed by the respective parliaments — still depends upon the enactment of a Federation PBS law in accord with State-level legislation and the subsequent consolidation of the resulting institutions. As noted above, the Croats' invocation of the Vital National Interest procedure has meant that the Federation law passed by parliament on 4 April was referred to the entity's Constitutional Court, which had issued no ruling by 30 June. The National Assembly of the Republika Srpska adopted the Republika Srpska PBS law on 11 May.

103. Four harmonized PBS laws are required for the establishment of a financially sustainable and editorially independent public broadcasting system in Bosnia and

Herzegovina that will consist of one Statewide PBS channel and two entity-based channels. The Federation law before the Constitutional Court envisages one public channel to cover the territory of the Federation and prescribes equal use of the country's three official (but fully communicable) languages in its programmes. The Croats, however, have consistently demanded an exclusively Croatian-language channel. A Federation Constitutional Court decision upholding that demand or finding other fault with the current law would further delay the establishment of a functional public broadcasting system and, with it, the fulfilment of the PBS reform required under the European Community's 2003 feasibility study.

104. The delay in completing the necessary legislation has put back the establishment of the constituent parts of the system, for example, the registration of the separate public company that is to manage premises, property and technical resources on behalf of all three public broadcasters, as well as the implementation of the already adopted legislation. The Bosnia and Herzegovina Parliamentary Assembly was due to appoint a new governing board for the Statewide broadcaster by 11 April 2006, but had failed to do so by 30 June. The Office of the High Representative will be obliged to continue working on PBS matters whatever the ruling of the Federation Constitutional Court.

XXI. Mission Implementation Plan and the workplan of the Office of the High Representative

105. The Office of the High Representative has pressed forward with its Workplan since the Steering Board of the Peace Implementation Council endorsed my overall approach in March. As expected, however, the early advent of the general election campaign and the adversarial approach to politics, as well as my insistence that the domestic authorities must take an ever larger share of responsibility for the country's affairs, meant that the rate of completion of both workplan and Mission Implementation Plan tasks slowed markedly in recent months. That was despite my attempt on 24 May to convince Members of Parliament to push forward with an ambitious legislative agenda over the 100 days remaining before the elections. The slowdown experienced will have serious knock-on effects on the Workplan and the Mission Implementation Plan. Three core tasks of the Mission Implementation Plan remain incomplete: rule of law, reforming the economy and institution-building.

XXII. European Union Special Representative

106. In line with my dual mandate as European Union Special Representative in Bosnia and Herzegovina (Council Joint Action 2006/49/CFSP), I continued to promote the priorities listed in the European Partnership document of 2006, as well as the implementation of the General Framework Agreement for Peace. I also worked on behalf of constitutional reform, which remains essential to both rationalize and strengthen the country's governance and, by extension, to equip Bosnia and Herzegovina for EU integration. In my role as European Union Special Representative I also continued to provide political oversight of the European Union Police Mission. The Commander of EUFOR, the Commissioner of the European Union Police Mission and I revised the terms of reference for the EU Crime Strategy Group during the reporting period.

XXIII. Reinforced engagement of the European Union in Bosnia and Herzegovina and closure of the Office of the High Representative

107. Bosnia and Herzegovina has made enormous progress in implementing the Dayton Peace Accords over the past decade. It is now on the road to Euro-Atlantic integration and has moved beyond peace implementation with one notable exception: complete cooperation with ICTY. The overwhelming majority of the reforms set out in the Mission Implementation Plan of the Office of the High Representative since its introduction in 2003 have been delivered.

108. As the situation on the ground has evolved, so too has the international community's approach. The country has reached the stage where it must take full responsibility for its own governance and destiny — particularly in meeting the requirements of Euro-Atlantic integration. That is the ardent desire of both the citizens of Bosnia and Herzegovina and the country's foreign friends. Anticipating that watershed, the Steering Board of the Peace Implementation Council acknowledged at its meeting in Vienna on 15 March that the Office of the High Representative would also need to change. As the communiqué noted:

> "Understanding that EU is prepared to build on its current engagement in Bosnia and Herzegovina, the Steering Board expressed its view that the time for transition from the Office of the High Representative to an EU Special Representative Office is approaching. The precise moment is yet to be determined. The Steering Board underlined that its decision on the actual transition will be made upon a recommendation of the High Representative and based on the situation then prevailing in Bosnia and Herzegovina and the region. It encouraged the High Representative to cooperate closely with EU in preparing the transition to an EU Special Representative Office."

109. In approving the 12-month workplan of the Office of the High Representative, the Peace Implementation Council in March also noted that the closure of the Office of the High Representative might take place during the first or second quarter of 2007.

110. On 15 May, EU Foreign Ministers expressed the readiness of the European Union in principle to reinforce its engagement in Bosnia and Herzegovina in the context of the envisaged closure of the Office of the High Representative, provided progress was sufficient and without prejudice to the decision of the Steering Board of the Peace Implementation Council in that regard. The Council invited the High Representative/Secretary-General, with the Commission and in close consultation with the EU Presidency, to begin consultations to that end with the Steering Board, the authorities of Bosnia and Herzegovina, other stakeholders and myself — and then to present a joint assessment to the Council.

111. An EU delegation consulted the Presidency and Prime Minister of Bosnia and Herzegovina on 22 June regarding the reinforced engagement of EU. Meeting in Sarajevo at the same time, the Steering Board of the Peace Implementation Council decided on 23 June that the Office of the High Representative should immediately begin preparations to close on 30 June 2007, taking into account the situation in Bosnia and Herzegovina and the region. The Steering Board agreed that it would then seek endorsement of such closure by the United Nations Security Council. Preparations for the transition from the Office of the High Representative to the Office of the EU Special Representative will intensify in the meantime.

112. At its meeting on 22 and 23 June, the Steering Board of the Peace Implementation Council also considered international community coordination in Bosnia and Herzegovina following the closure of the Office of the High Representative. Political directors expressed their willingness to work with the EU Special Representative thereafter and to support granting him a coordinating role among international agencies and Steering Board members. They recommended the establishment of a new coordination body to bring together the members of the Steering Board and the Board of Principals. Finally, and without prejudice to established chains of command, political directors noted that members of that forum would play an integral part in the policymaking process by sharing information and providing their respective inputs and advice.

113. While the transition of the Office of the High Representative and the promotion of domestic ownership will mean a transfer of responsibility to institutions of Bosnia and Herzegovina, the international community will both need and want to remain actively engaged in assisting the authorities of Bosnia and Herzegovina to take on the challenges and the opportunities of full sovereignty.

XXIV. Reporting schedule

114. In keeping with my proposal to submit regular reports for onward transmission to the Security Council, as required by the Council in its resolution 1031 (1995), I herewith present my first regular report. Should the Secretary-General or any Security Council member require information at any other time, I would be pleased to provide an additional written update.